Lionheart
ENERGY CORP.

1995 ANNUAL REPORT

THE CORPORATION

Lionheart Energy Corp. is a public, junior oil and gas company engaged in the acquisition, exploitation, exploration and development of conventional petroleum and natural gas reserves in Western Canada. The corporation was incorporated in June of 1993 as a private company and went public in November of 1994. Our principal area of focus is the Chigwell region located in east central Alberta. Lionheart Energy Corp. is committed to providing enhanced value to our shareholders through our focus within the oil and gas industry.

Lionheart
ENERGY CORP.

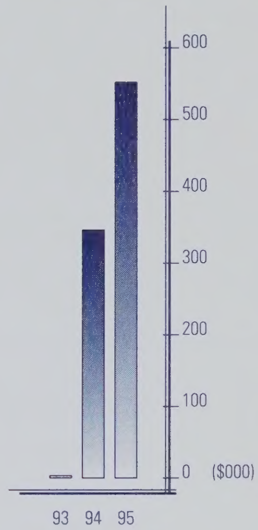
CORPORATE HIGHLIGHTS

	1995	1994	1993
	(12 months)	*(12 months)*	*(7 months)*
FINANCIAL	*(thousands of dollars, except share data)*		
Gross Production Sales	2,211	1,025	70
Cash Flow from Operations	552	346	–
Per Share (Weighted Average Basic) ($)	0.06	0.05	–
Per Share (Basic) ($)	0.05	0.04	–
Net Income (Loss)	1	124	(7)
Per Share (Weighted Average Basic)	–	0.020	–
Per Share (Basic)	–	0.015	–
Capital Expenditures	5,358	2,388	408
Total Assets	9,211	3,061	547
Bank Indebtedness	1,405	600	–
Shareholders' Equity	5,342	1,843	481
Outstanding Common Shares			
Weighted Average (Basic)	9,486,229	6,866,690	2,649,480
At December 31 (Basic)	12,177,212	8,281,912	4,356,912

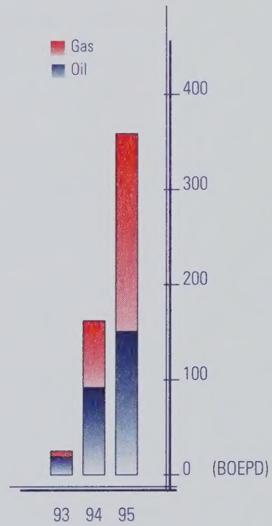
OPERATING

	1995	1994	1993
Production			
Crude Oil and Liquids (bbl/d)	151	92	19
Natural Gas (mcf/d)	2,122	721	56
Barrels of Oil Equivalent (BOEPD)	363	165	24
Reserves (Proved and Probable)			
Crude Oil and Liquids (mbbl)	2,364	1,409	212
Natural Gas (mmcf)	18,034	6,686	2,140
Barrels of Oil Equivalent (MBOE)	4,168	2,078	426
Present Value of Reserves ($000's)			
Discounted at 15% Before Tax	18,638	11,542	2,455
Per Share (Weighted Average Basic) ($)	1.96	1.68	0.93
Per Share (Basic) ($)	1.53	1.39	0.56
Land (Net Acres)			
Developed	17,250	6,048	3,140
Undeveloped	6,926	2,117	360
Average Prices			
Crude Oil and Liquids ($/bbl)	20.91	18.90	12.30
Natural Gas ($/mcf)	1.30	1.84	2.05
Natural Gas Liquids ($/bbl)	16.93	14.17	10.82

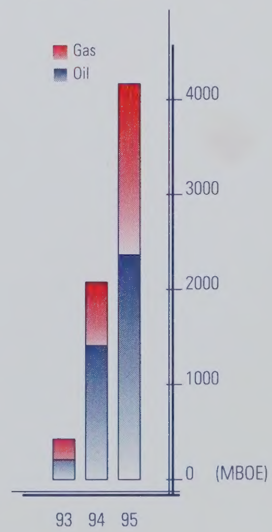
CASH FLOW FROM OPERATIONS



AVERAGE DAILY PRODUCTION



RESERVES: PROVED & PROBABLE



Lionheart ENERGY CORP.

PRESIDENT'S REPORT

To The Shareholders

In 1993 Lionheart emerged as an acquisition company by positioning itself in the Chigwell area of Alberta. In 1994 we refocused from acquisitions to exploitation. In 1995 we began to add development, exploration and diversification beyond Chigwell into the surrounding east central Alberta region. These three strategies: acquisition, exploitation, as well as exploration and development, will become the basis and the means by which we will grow in 1996 and beyond.

In spite of these challenges, Lionheart listed on The Toronto Stock Exchange, raised $4.5 million in new equity and increased production from an average of 165 BOEPD in 1994 to 363 BOEPD in 1995.

1995 OPERATIONAL HIGHLIGHTS

• Lionheart raised a total of $4.5 million in new equity private placements in 1995, increasing its number of outstanding shares from 8.3 million to 12.2 million in the process. The shares (excluding options) were issued at prices ranging from $0.70 to $1.10 per share, increasing over the course of the year.

• In December of 1995, Lionheart shares were listed for trading on The Toronto Stock Exchange under the trading symbol LEO, providing additional liquidity to our shareholders. We will continue to maintain our listing on the Alberta Stock Exchange for the remainder of 1996.

• Our capital expenditure program in 1995 was $5.4 million: $2.0 million in property acquisitions in and around our core Chigwell area and $3.4 million in oil and gas development programs. Of the $3.4 million, $1.4 million was expended on the construction of the Chigwell Gas Plant Expansion Project. This Project increased our area gas processing capacity from 1.4 to 5.0 mmcf/d of sales gas (Lionheart has a 76% working interest) in late December. The balance of the $3.4 million development program was spent on six successful Glauconite crude oil frac's; three re-completions in the Viking B Unit; and participation in four development wells and one exploration well. These resulted in two horizontal oil wells, one gas well and two dry and abandoned wells for an overall success rate of 60%.

• Our acquisition and development program resulted in a proved and probable reserves increase from 2.1 million BOE's in 1994 to 4.2 million BOE's as of December 31, 1995. Of the 2.1 million BOE reserve additions in 1995, 1.0 million BOE's came from our property acquisition program with the remainder attributed to our development program. Proved reserves increased from 1.2 million BOE's in 1994 to 2.2 million BOE's in 1995 (60% oil, 40% gas), with a reserves replacement ratio of over eight times our 1995 production. Lionheart's average finding and development cost was $2.25 per BOE in 1995, giving a three-year average of $1.78 per BOE.

• The Net Present Value of Lionheart's reserves increased by 62% from $11.5 million in 1994 to $18.6 million in 1995 (15% discounted, escalated prices, 50% risked probable reserves value).

• Lionheart's production increased from an annual average of 165 BOEPD in 1994 to 363 BOEPD in 1995, an increase of 120%.

1995 FINANCIAL HIGHLIGHTS

• Gross Oil and Natural Gas Sales totaled $2,210,759 for 1995, more than doubling our $1,025,043 gross sales in 1994.

• Oil prices averaged $20.91 in 1995 versus $18.90 in 1994, an increase for our medium crude blend of 11%. Gas prices fell from a 1994 average of $1.84 per mcf to $1.30 per mcf in 1995, a decrease of 29%. Prices for Natural Gas Liquids (NGLs) increased from $14.17 per bbl in 1994 to $16.93 in 1995, an increase of 19%.

• Cash Flow from Operations was $552,357 versus $345,810 in 1994, an increase of 60%. Our 1995 cash flow per weighted average outstanding share was $0.06 in 1995 versus $0.05 in 1994, an increase of 16%.

• Net Income for 1995 was $1,390 versus $124,154 for 1994. 1995 resulted in a "break-even" year while we endeavored to build our opportunities, infrastructure and relationships, both within and outside of Lionheart.

THE EMERGENCE OF LIONHEART

In reflecting on our past year's performance, it was a time of transition in our corporate development from a micro-cap to an established emerging junior oil and gas company. Our satisfaction comes from not merely "surviving" the challenges of 1995, but "thriving" in the sense of continuing to enhance our corporate value.

The year 1995 was challenging. The winter of 1994/95 was unseasonably warm for North America and our industry was once again facing a gas over-supply situation. Gas prices dropped as low as $0.85 per mcf from our highs of $2.47 per mcf earlier in 1994. Oil and gas equity markets were soft and new capital scarce.

In spite of these challenges, Lionheart listed on The Toronto Stock Exchange, raised $4.5 million in new equity and increased production from an average of 165 BOEPD in 1994 to 363 BOEPD in 1995.

Our intent is to be an exceptional energy company within the oil and gas industry. Our goal is to significantly increase the value of Lionheart each year as effectively and as efficiently as we can. Our strategy is to add value through innovative technological field applications, medium to high value reserve additions in exploration and development and synergistic acquisitions. Our actions will conform to the corporate values and principles we established in 1995 (see page 27 in this annual report).

People are the key to success and, in the second quarter of 1995, we began to look for those who shared our intent.

We strengthened our board of directors, adding Gary Bourgeois (President of Queen-Yonge Investments) from Toronto in June, and Chris Crosby (Senior Vice President of Christopher Investments) from Vancouver in December, 1995. They join Rob Vanderham (Chairman of Highridge Resources), from Victoria who is one of the founding outside directors of Lionheart.

People are the key to success and, in the second quarter of 1995, we began to look for those who shared our intent.

We felt that four areas needed full representation for our senior management team: engineering, finance, business (land and acquisitions) and geology. Phil Schreiner accepted the Chief Financial Officer and Secretary-Treasurer positions as a continuation from his previous role with Lionheart. Steve Fagan accepted the position of Vice President of Land and Acquisitions in July, 1995, and I carried on in the role of exploitation, engineering and operations. By year end, Greg Robb joined our company as the Vice President of Exploration and Development. With Greg's addition to our management team, the four elements we had deemed necessary are now firmly in place.

In the spring and summer of 1995, we began to tell our story to the investment community. Our uniqueness was acquiring oil and gas assets that could be enhanced by technology, business (consolidation of fractionated interests) or market activities. We believe in operatorship to allow us control over the development of our opportunities and have chosen to focus on the conventional oil and gas business at this time in our development.

Our key result to date is Lionheart's 1995 finding and development cost of $2.25 per BOE which is one of the lowest in the industry. Our three year average finding and development cost is $1.78 per BOE.

We believe in "win-win" relationships so that all can benefit in our growth over time. With this approach, we were successful in raising $4.5 million in 1995. We realized that we had little influence over the day to day market price of our shares, but what we could influence was the price at which we sold our equity through building a business that was fundamentally strong. We placed our shares at increasing levels from $0.70 to $0.76, $0.80 and $1.10 per share from April to December of 1995. At the time of writing, our shares are trading at $1.25 per share.

Our key result to date is Lionheart's 1995 finding and development cost of $2.25 per BOE which is one of the lowest in the industry. Our three year average finding and development cost is $1.78 per BOE. We have doubled our proved and probable reserves from 1994 and invested a net $7.5 million in our corporate lifetime to create over $17 million in net asset value for our shareholders. Despite receiving our funds late in the third quarter, we were within 10% of meeting our forecasted cash flow numbers of $0.07 per weighted average basic share.

The year, however, was not without some disappointments. In November, 1995 we implemented a horizontal re-entry at Chigwell. Our original program was 1,600 meters of horizontal lateral in two zones with an expected production rate of 200 BOEPD. We actually drilled 340 meters in one zone, about one-fifth of our program. Based upon initial test rates in November, we indicated an expected longer term rate of 120 BOEPD; however, after four months of production, the horizontal re-entry is producing 30 BOEPD.

Our study of the Viking B Unit met with some success, but tertiary recovery has been evaluated as uneconomic, removing the potential of adding an incremental 500,000 bbls of light oil to our corporate reserves in the near term. The knowledge we gained in evaluating the Viking B pool in Chigwell will benefit our interest in the Morningside Viking E pool acquired in late 1995. Our development well in Gilby and exploration well in Chin Lake were drilled and abandoned.

These activities, however, represented less than 15% of our net 1995 capital expenditures and helped to more clearly define our operating strategy for the Chigwell region.

In 1995 we firmly established ourselves as an emerging junior oil and gas company within the industry. We were successful in acquiring assets in our area of interest, acquisitions that were the largest in our corporate history. Our change of balance between oil and gas, emphasizing gas oriented investments in late 1995, appears to be the right strategy for 1996 and 1997. Our ongoing development program continues to provide a solid production base that can act as a springboard for our future growth.

SUBSEQUENT EVENTS

A $2.28 million Special Warrants issue was closed in late March, 1996. A total of 2.2 million shares were placed: 750,000 Flow-Through Special Warrants at $1.10 and 1.45 million Special Warrants at $1.00. Each Special Warrant will be converted, once the prospectus clears the appropriate regulatory agencies, into one common share of Lionheart Energy Corp.

Our change of balance between oil and gas, emphasizing gas oriented investments in late 1995, appears to be the right strategy for 1996 . . .

OUTLOOK FOR 1996

The outlook for Lionheart in 1996 remains positive. At the time of writing, the commodity price and equity environment is much stronger than industry expected. Our current portfolio of development opportunities on existing lands has the potential to more than triple our 1995 production levels in 1996 with capital expenditures currently estimated at $7.5 million.

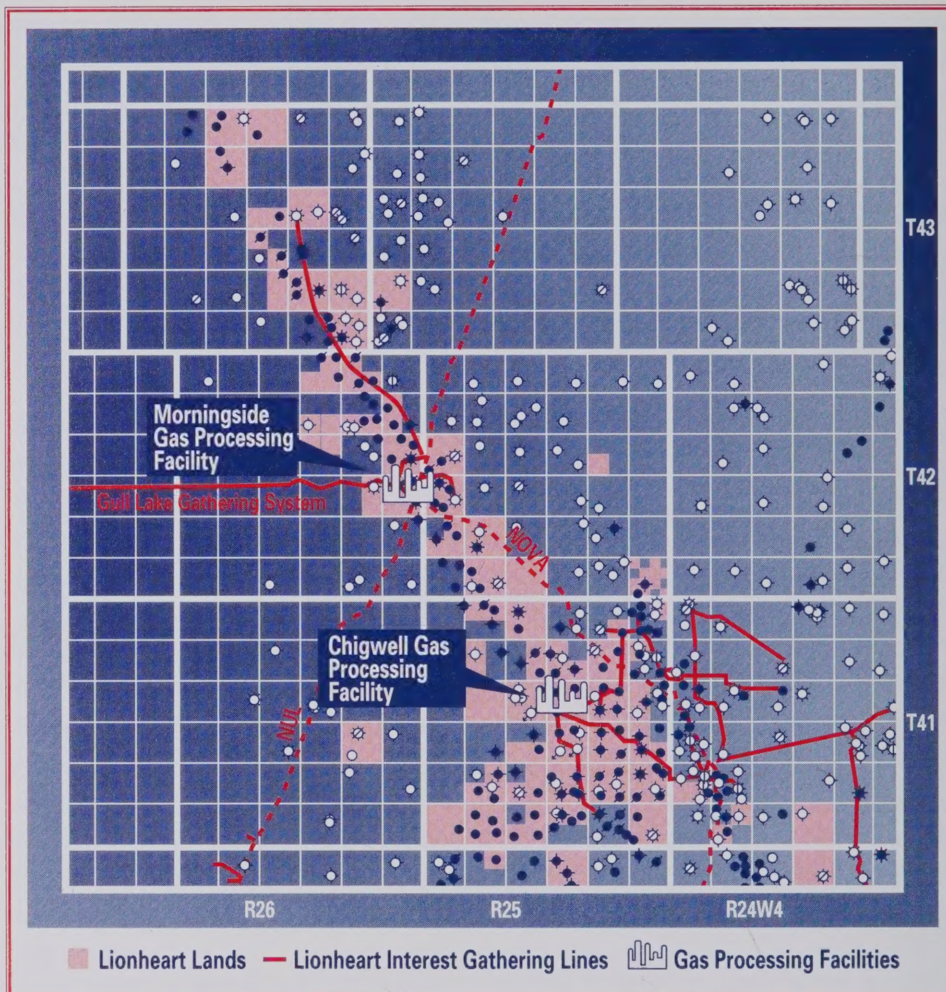
Strategically, we will be positioning ourselves for further acquisition opportunities to enhance our asset value and increase our cash flow. In parallel with our acquisition strategy, we will diversify by actively positioning ourselves in two other regional exploitation and development opportunities outside of Chigwell.

More details concerning our emergence as a strongly positioned junior oil and gas company will be available at our Annual and Special Meeting that is scheduled for 2:00 p.m., May 23, 1996 at the Westin Hotel in Calgary.

Lionheart Energy Corp., its board of directors, management and staff wish to thank each of the shareholders who supported and believed in the ideas and the values that form the core of our company. I would also like to thank the staff and consultants involved with Lionheart who helped create and implement the ideas that contributed to our emergence in 1995. With all of your support, our success will continue through 1996.

On Behalf of the Board of Directors,

Rick Hatala, P.Eng.
President and Chief Executive Officer
April 8, 1996



SUMMARY:

- Land: 24,176 net acres
- Wells: 137 gross (59 net)
- Plant Capacity: 17 mmcf/d gross (9.5 mmcf/d net)
- Gathering: over 100 kms of pipe
- Control: 10 townships

CHIGWELL CORE AREA LANDS

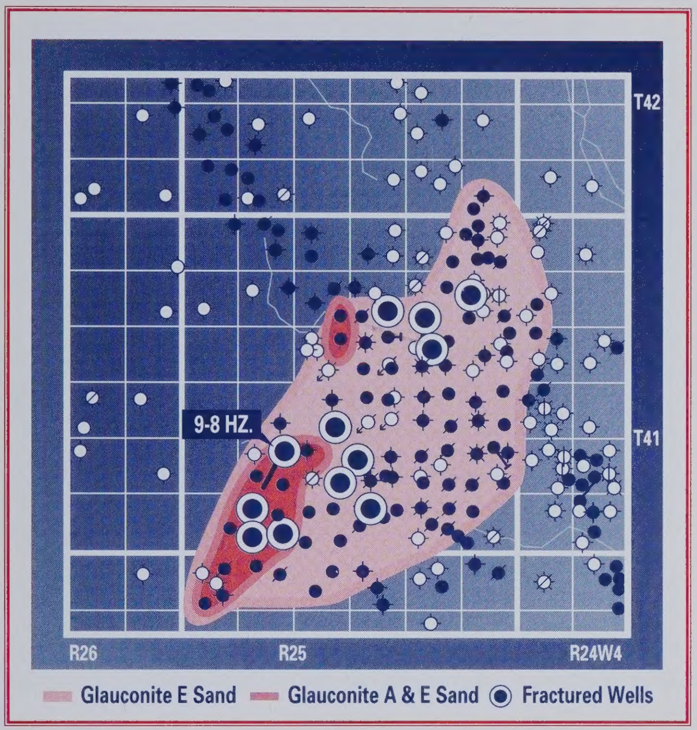
Lionheart continued to expand its interest in the Chigwell region of east central Alberta in 1995 through four separate property acquisitions. Our land position in this region increased from 8,165 net acres in 1994 to 24,176 net acres in 1995. Additional areas of emphasis for 1996 include Morningside, Ponoka, Gull Lake and Dyberg.

Lionheart has an interest and operates the majority of 137 gross wells (59 net wells) within the region, has a 69% interest and operates the Viking B Unit, has a 76% interest and operates the Chigwell Gas Processing Facility (5 mmcf/d capacity), and has a 47% interest and operates the Morningside Gas Processing Facility (12 mmcf/d capacity).

Through the operatorship of two gas plants and 100 kilometers of gas gathering pipeline, Lionheart influences the development of a ten township (360 square miles) area in east central Alberta. Future development within the Chigwell region will occur in 1996.

CHIGWELL GLAUCONITE DEVELOPMENT PROGRAM

The Glauconite zone at Chigwell is a marine deposit that covers half a township (18 square miles) of land. It contains 52 million bbls of medium gravity crude in place and, after 15 years of production, has only recovered about 5% of the oil in place. In 1995 our technical assessment phase evolved into three reservoir depletion strategies: crude oil and sand fracturing technology, vertical infill drilling and, for the southwest corner of the pool, horizontal drilling technology.



The Glauconite Development Project consists of up to 33 well operations: 17 crude oil fracture candidates; up to 2 additional horizontal wells; 3 vertical drills on 160 acre spacing and 10 vertical infill wells on 80 acre spacing. The entire project will be implemented over four years with 10 well operations planned in each of 1996, 1997 and 1998, with the remainder in 1999. Since one-third of the production from these wells is in the form of solution gas, our plan is to maintain our throughput in our Chigwell Gas Plant. Lionheart has an average working interest of 75% in the project.

During 1994 and 1995, Lionheart has crude oil fractured the Glauconite in 11 wells. Our assessment is that the overall program has a payout of 12 months and an internal rate of return of 78%. An additional 17 crude oil fracture candidates are present in the pool.

An engineering study of drilling options showed that a multi-well vertical drilling program in the Glauconite pool, provided that a minimum of 6 wells are drilled at a time, can substantially reduce the drilling and completion costs by up to 40% over single, isolated vertical wells. These findings have been incorporated into our overall development scenario.

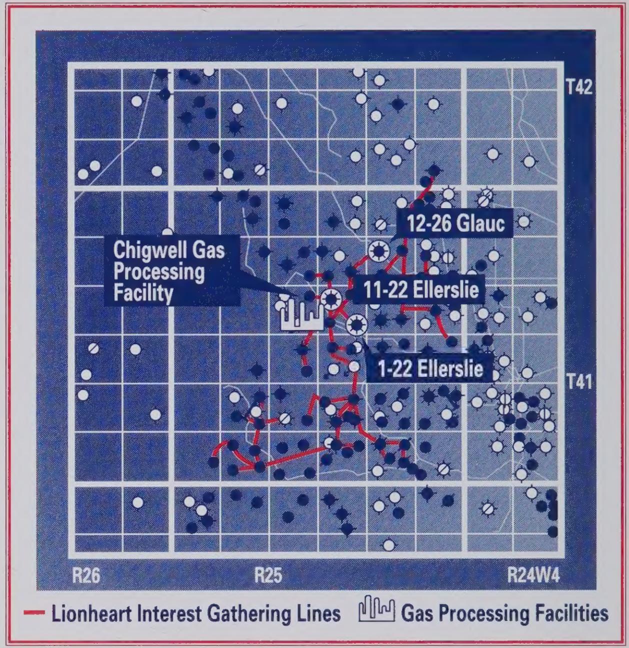
In the southwest, two-sand region of the Glauconite pool, our decisions in 1996 will involve the possible lengthening of the 9-8 well from its current 340 meters to the full program length of 1,600 meters and the potential drilling of up to 2 additional underbalanced, multi-lateral horizontal wells.

GLAUCONITE DEVELOPMENT PROGRAM:

- 52 million barrels of oil in place
- 75% working interest
- 11 frac's done to date
- 78% ROR on program
- 33 well operations planned over 3 years

CHIGWELL GAS DEVELOPMENT PROJECT

The key to development of the Chigwell gas potential was the expansion of the Chigwell Solution Gas Plant from 1.4 mmcf/d to 5.0 mmcf/d in late December, 1995. About half of the plant's capacity is for low pressure solution gas for the Glauconite development program and half is for higher pressure, non-associated Ellerslie gas.



To maintain the plant capacity in the medium term, we have an inventory of 10 Ellerslie gas re-completion opportunities in the Chigwell area. Two gas wells will be connected in 1996 with the remainder connected as required to maintain through-put volumes in the plant. About 15 bcf of proved and probable reserves will be connected to our facility over time.

CHIGWELL GAS DEVELOPMENT PROJECT:

- Plant expansion to 5 mmcf/d in 1995
- 10 gas wells in area inventory
- 15 bcf connected over time
- Recompletions and tie-ins

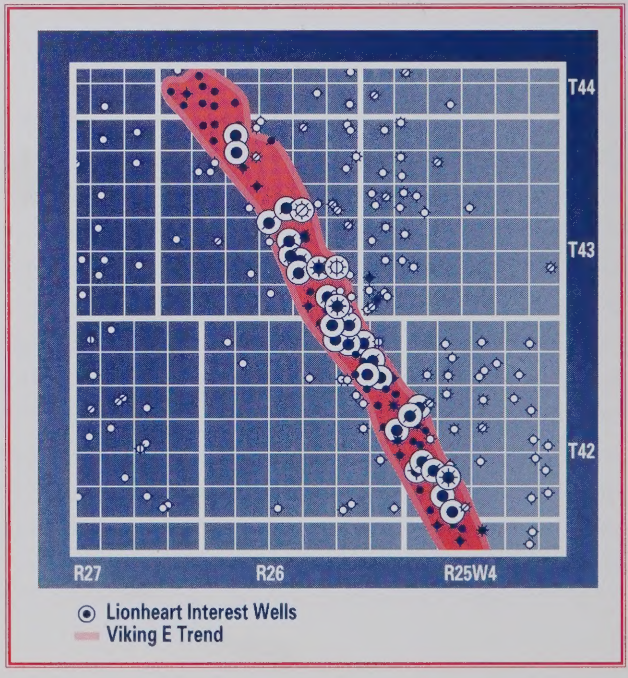
MORNINGSIDE VIKING E POOL:

- 28 million BOE in place
- 700,000 BOE incremental oil
- Restarting up to 21 wells
- 15 well frac and infill program
- 44% Lionheart interest

MORNINGSIDE VIKING E POOL DEVELOPMENT PROJECT

The Viking E Pool was acquired in late 1995. Lionheart operates 29 Viking E light oil wells in Morningside. The portion of the pool that we control contains 27 million bbls of crude and 5.1 bcf of gas (or 28 million BOE'S) in place. Approximately 3.3% of the oil has been recovered to date over the pool's 12 year life.

Our feasibility study estimates the ultimate potential recovery from this portion of the pool is an incremental 2.5% or 700,000 BOE's of light oil and associated solution gas through the application of fracturing technology and infill drilling. In 1996 we will be testing these concepts through engineering evaluations, acquisition of baseline production and reservoir engineering data, and fracturing several candidate wells within the pool.



The net Lionheart interest in this area is 44%.

OTHER AREAS

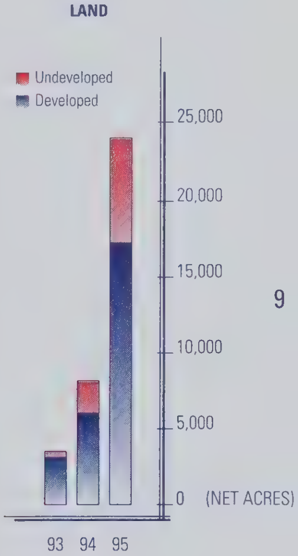
In Moose Mountain, Saskatchewan, the operator unitized the pool and drilled one successful horizontal well in the Tilston formation. Initial production of medium gravity crude was 120 bbl/d. Two additional horizontal wells are planned for 1996. Lionheart has a 4% interest in this unit.

In late 1995, we acquired interests in the Ponoka, Dyberg, Gull Lake and Ferrybank areas of the province. We are evaluating these opportunities for possible development as early as the second quarter of 1996.

LAND SUMMARY

Lionheart is continuing to expand its land position in east central Alberta. During 1995 total net acres increased by 196% from 8,165 to 24,176 net acres. Net undeveloped acres increased by 227% from 2,117 acres to 6,926 acres at the end of 1995. The majority of the increase is due to our four property acquisitions in 1995.

The undeveloped land base was independently appraised by Seaton-Jordan & Associates Ltd. at a value of $523,000 as at December 31, 1995.

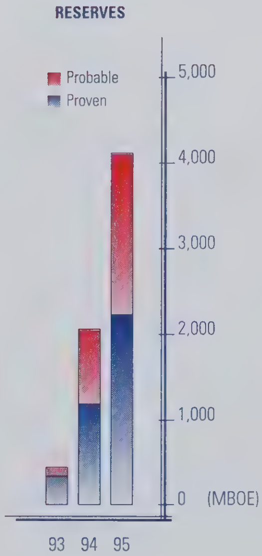


LAND POSITION SUMMARY (Acres)

	Developed		Undeveloped		Total	
	Gross	Net	Gross	Net	Gross	Net
Alberta	15,680	5,773	6,040	1,899	21,720	7,672
Saskatchewan	2,320	275	320	218	2,640	493
Total @ Dec 31/1994	18,000	6,048	6,360	2,117	24,360	8,165
Alberta	46,893	16,975	13,526	6,708	60,419	23,683
Saskatchewan	2,320	275	320	218	2,640	493
Total @ Dec 31/1995	**49,213**	**17,250**	**13,846**	**6,926**	**63,059**	**24,176**
Net change	31,213	11,202	7,486	4,809	38,699	16,011
% Increase	173%	185%	118%	227%	159%	196%

RESERVE SUMMARY

Lionheart's total proved and probable reserves increased 100% from 2.1 million BOE's in 1994 to 4.2 million BOE's in 1995. Proved reserves increased by 89% to 2.25 million BOE's and probable reserves increased by 116% to 1.9 million BOE's. On a proved basis, Lionheart replaced 1995 production by a factor of 8.0 times (15.8 times on a proved and probable basis).



Our reserve life index, based upon our proved and probable reserves and 1995 production levels, is over 31 years. On a proved basis, only, it is 17 years.

RESERVES SUMMARY

(before Royalty)	Oil & NGLs (mbbls)			Natural Gas (mmcf)			MBOE		
	Proven	Probable	Total	Proven	Probable	Total	Proven	Probable	Total
June 2, 1993									
Acquisitions	153	62	215	1,725	420	2,145	326	104	430
Reserve Additions	0	0	0	0	0	0	0	0	0
Reserve Revisions	0	0	0	0	0	0	0	0	0
Production	(3)	0	(3)	(5)	0	(5)	(3)	0	(3)
December 31, 1993	**150**	**62**	**212**	**1,720**	**420**	**2,140**	**322**	**104**	**426**
Acquisitions	107	27	134	3,346	725	4,071	442	100	541
Reserve Additions	386	632	1,018	1,379	1,145	2,524	524	747	1,270
Reserve Revisions	47	31	78	(902)	(930)	(1,832)	(43)	(62)	(105)
Production	(33)	0	(33)	(217)	0	(217)	(55)	0	(55)
December 31, 1994	**657**	**752**	**1,409**	**5,326**	**1,360**	**6,686**	**1,190**	**888**	**2,078**
Acquisitions	201	130	331	3,995	2,684	6,679	601	398	999
Reserve Additions	452	227	679	1,388	4,056	5,444	591	633	1,224
Reserve Revisions	0	0	0	0	0	0	0	0	0
Production	(55)	0	(55)	(774)	0	(774)	(132)	0	(132)
December 31, 1995	**1,255**	**1,109**	**2,364**	**9,935**	**8,100**	**18,035**	**2,249**	**1,919**	**4,168**
1995 Reserve Life (years)	**22.8**	**20.2**	**43.0**	**12.8**	**10.5**	**23.3**	**17.0**	**14.5**	**31.5**

PRESENT VALUE OF RESERVES

	Reserves (before royalty)			Present Value of Reserves ($000 discounted at:)			
	Oil & NGLs	Gas	BOE	0%	10%	15%	20%
	(mbbls)	(mmcf)	(MBOE)				
Proven Producing	463	4,628	926	$10,872	$8,009	$7,147	$6,490
Proven Non-Producing	792	5,306	1,323	$13,209	$7,447	$5,983	$4,866
Total Proven	1,255	9,934	2,249	$24,081	$15,456	$13,130	$11,356
Probable @ 50% Value*	1,109	8,100	1,919	$11,494	$6,866	$5,508	$4,497
Proven Plus Probable							
December 31, 1995	**2,364**	**18,034**	**4,167**	**$35,575**	**$22,322**	**$18,638**	**$15,853**
December 31, 1994	1,409	6,686	2,078	$19,730	$13,513	$11,542	$10,006
December 31, 1993	212	2,140	426	$4,443	$2,958	$2,455	$2,086

* Probable reserves are shown without reduction; however, the Present Value resulting from these reserves are reduced by 50% in terms of value.

PRESENT VALUE OF RESERVES

Lionheart's reserves were evaluated by Brusset Consultants Ltd. as at December 31, 1995. The table on page 10 reflects the forecast of future income from the production and sale of working interest reserves less royalty, capital expenditures and operating costs, but before the deduction of interest, income tax, general and administrative or other corporate costs.

Lionheart's total proven reserves value discounted at 15% is $13.1 million with unrisked probable additions at $11.0 million for a total unrisked reserves value of $24.1 million.

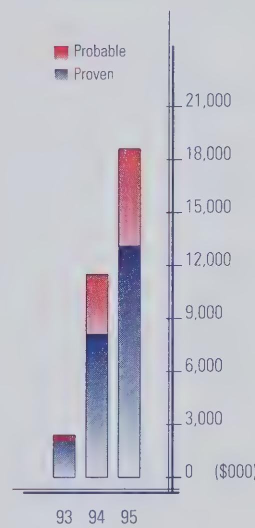
On a risked basis, taking the probable reserves value at 50%, our present value of reserves at 15% discount is $18.63 million versus $11.5 million for 1994, a 62% increase.

The WTI and Edmonton Light Oil price shown below are taken from Brusset's evaluation and are provided as a reference point. The crude oil and natural gas prices presented in columns 3 and 4 of the table are the actuals used for Lionheart in its Corporate Evaluation.

CRUDE OIL & NATURAL GAS PRICE FORECASTS

	WTI at Cushing Oklahoma ($U.S./bbl)	Light Oil Crude at Edmonton ($Cdn/bbl)	Crude Price Field Blend Price ($Cdn/bbl)	Natural Gas Average Field Price ($Cdn/mmbtu)
1996	$19.00	$24.50	$20.97	$1.55
1997	$20.00	$25.50	$21.83	$1.70
1998	$21.00	$27.00	$22.86	$1.89
1999	$22.00	$28.50	$23.28	$2.08
2000	$23.00	$30.00	$24.76	$2.24
2003 & Thereafter	$26.00	$34.00	$27.00	$3.00

PRESENT VALUE OF RESERVES

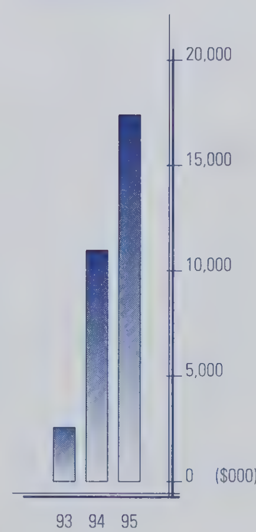


NET ASSET VALUE

Lionheart's Net Asset Value increased in 1995 due to increased reserves and undeveloped land values over 1994. The asset value is calculated using the 15% discounted, before tax, value of the proven and 50% probable reserves values estimated by Brusset Consultants Ltd. for 1993, 1994 and 1995. The undeveloped land value for 1995 was determined by Seaton-Jordan & Associates Ltd. The 1994 and 1993 undeveloped land values are internal estimates only.

Lionheart's Net Asset Value increased from $11.0 million in 1994 to $17.4 million in 1995, an increase of 58%. Our Net Asset Value per weighted average outstanding share increased to $1.83 per share, an increase of 14% from 1994.

NET ASSET VALUE



NET ASSET VALUE

($000, except per share)

	1995	1994	1993
Present Value of Reserves @ 15% discount			
Proven	$13,130	$8,095	$1,544
Probable @ 50% Value	$5,508	$3,446	$911
Undeveloped Land	$523	$160	$28
Working Capital	$(631)	$(124)	$80
Debt and Future Site Restoration	$(1,512)	$(643)	$(3)
Other Assets	$364	$36	$0
Total Net Asset Value	**$17,382**	**$10,970**	**$2,560**
Weighted Average Shares Outstanding	9,486	6,867	2,649
Net Asset Value per Share	$1.83	$1.60	$0.97
Shares Outstanding at December 31	12,177	8,282	4,357
Net Asset Value per Share	$1.43	$1.32	$0.59

Lionheart's three year average costs are $3.18 per BOE proven and $1.78 per BOE proven plus probable, one of the lowest in the industry and less than our corporate target of $5.00 per BOE.

FINDING & ONSTREAM COSTS

Low finding and development costs are essential to profitability and longer term success of companies within the oil and gas industry. Lionheart's three year average costs are $3.18 per BOE proven and $1.78 per BOE proven plus probable, one of the lowest in the industry and less than our corporate target of $5.00 per BOE.

The higher costs per BOE in 1995 were due to significant facility investments in both our Morningside and Chigwell Gas processing facilities and infrastructure. The investment in this regional area gas processing capacity (9.5 mmcf/d net) will allow us to develop and connect our gas reserves economically over the next three to five years.

CUMULATIVE & ANNUAL FINDING & ONSTREAM COSTS

	Cumulative 1993-1995	1995	1994	1993
Oil and Gas Expenditures ($000)	$7,762	$5,008*	$2,346	$408
Proven Reserve Additions				
Including Revisions (MBOE)	2,439	1,192	923	326
Average Costs per BOE	$3.18	$4.20	$2.54	$1.25
Proven and Probable Reserve Additions				
Including Revisions (MBOE)	4,358	2,223	1,707	430
Average Cost per BOE	$1.78	$2.25	$1.37	$0.95

* $2.5 million of the $5.0 million in 1995 was expended in acquisition of the Morningside Gas Processing Facility and associated infrastructure and the construction of the Chigwell Gas Plant Expansion project.

MANAGEMENT'S DISCUSSION & ANALYSIS

RESULTS OF OPERATIONS

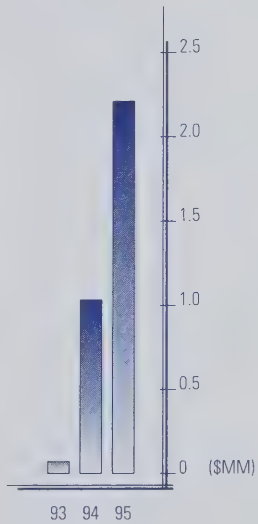
Gross Production Revenues (or Sales)

Gross Production Revenues increased over 115% from $1.03 million in 1994 to $2.21 million in 1995. The increase was due to four property acquisitions and 16 well operations in and around our Chigwell core area. On a per unit of volume basis, revenues declined from $19.06 per BOE in 1994 to $17.06 in 1995, a decrease of 11.7%. The 115% increase in revenues was due to higher volumes of production.

Royalties

Royalties decreased from 15.2% of gross production revenues in 1994 to 14.0% of gross production revenues in 1995. The decrease was due to reduced Crown royalties resulting from lower gas prices.

GROSS PRODUCTION REVENUES



Production Expenses

Production expenses increased from $364,923 in 1994 to $720,494 in 1995. On a per unit of production basis, production expenses decreased from $6.45 per BOE in 1994 to $5.44 per BOE in 1995, a reduction of 16%. The reason for the reduction is principally the filling of the Chigwell Solution Gas Plant capacity for the second half of 1995. This allowed us to amortize our fixed operating costs over higher volumes of production than the previous year.

OIL & GAS NETBACKS

($ per BOE)

	1995	1994	1993
Revenue	$17.06	$19.06	$13.95
Royalties	($2.34)	($2.88)	($2.66)
Production Expenses	($5.44)	($6.45)	($6.33)
Netback	$9.28	$9.73	$4.96
Royalty Percentage	14%	15%	19%
Daily Production Volumes (BOEPD)	363	165	24

General & Administrative Expenses

General & Administrative expenses increased from $153,070 in 1994 to $619,267 in 1995. On a per unit basis, G & A expenses were $2.83 per BOE in 1994 versus $4.68 per BOE in 1995. Management estimates that the one-time costs that contributed to the G & A increase in 1995 totaled $125,000. Specifically, these costs relate to the TSE listing, financial activities, investor relations and the establishment of the senior management team.

Depletion & Amortization

Depletion and amortization increased from $221,656 in 1994 to $546,567 in 1995. On a per unit basis, depletion was $4.10 per BOE in 1994 and $4.13 per BOE in 1995.

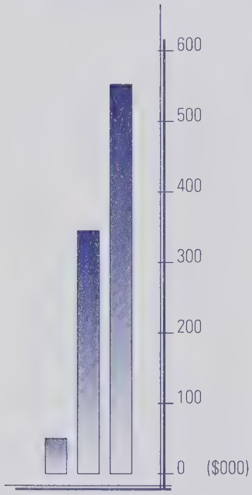
Interest Expense

Interest expense increased from $27,400 in 1994 to $61,453 in 1995. The increase reflects increased bank debt levels for our 1995 development and acquisitions programs.

Cash Flow from Operations and Net Income

Cash flow from operations increased from $345,810 in 1994 to $552,357 in 1995. The increase is due to higher production volumes (product prices were lower) in 1995 over 1994. Net income decreased from $124,154 in 1994 to $1,390 in 1995. The decrease was due to the higher costs of developing our opportunities, infrastructure and relationships within the industry.

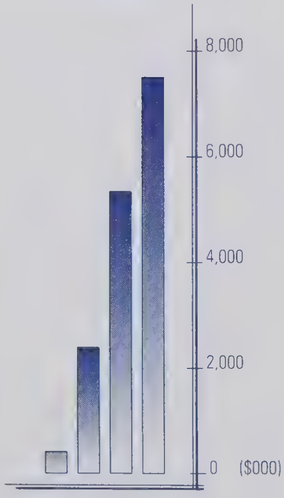
CASH FLOW



CAPITAL EXPENDITURES ($000)

Year Ended December 31	Cumulative 1993-95	1995	1994	1993
Producing Property Acquisitions	$3,484	$1,991	$1,098	$395
Mineral Lease Acquisitions	$205	$7	$198	$0
Non-Producing Property Costs	$129	$61	$68	$0
Exploration and Development Costs	$3,904	$2,939	$952	$13
Rental Fleet Equipment	$41	$10	$31	$0
Other Expenditures	$391	$350	$41	$0
Total	$8,154	$5,358	$2,388	$408

CAPITAL EXPENDITURES



LIQUIDITY & CAPITAL RESOURCES

In 1995, Lionheart raised $4,476,386 in new equity, re-invested $552,357 from cash flow and increased its debt by $805,000 to implement its 1995 programs. At year end, Lionheart had a line of credit with Alberta Treasury Branches of $2.6 million of which $1.4 million had been used.

Lionheart's stock trades on The Toronto Stock Exchange and the Alberta Stock Exchange under the trading symbol LEO. In 1995, 1.17 million shares were traded at a high of $1.25, a low of $0.40 and a close at year end of $1.08 per share. Volumes have gradually increased over the course of 1995 from an average of 2,000 shares per trading day in the first quarter to 7,800 shares per trading day for the last quarter of 1995. The public float of the company is estimated at 6.93 million shares at year end 1995 of a total 12.2 million shares basic.

BUSINESS RISKS

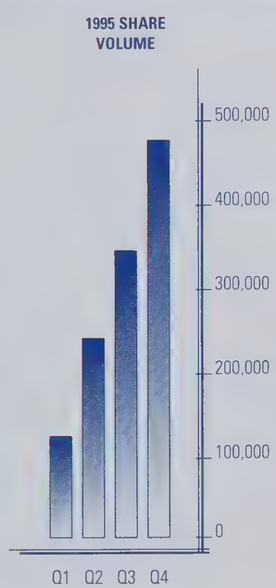
The company's principal business risk arises from the fluctuating nature of crude oil and natural gas markets and prices, the uncertain results of capital expenditure programs and the volatility of interest and exchange rates. The company actively manages risk by concentrating on development activities in areas where it has demonstrated technical capability. The following table illustrates the company's sensitivity to fluctuations in key business conditions, on a cash flow using 1995 as a base.

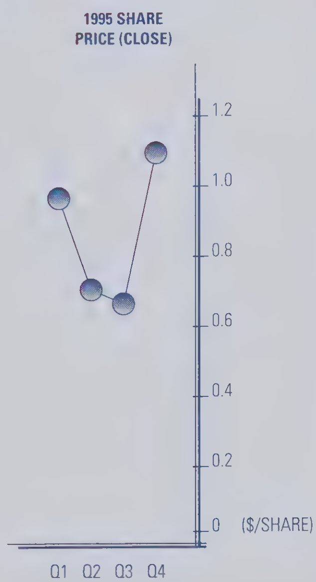
SENSITIVITY

	(Thousands) Incremental Cash Flow	Incremental Cash Flow per Share*
Increase in Crude Oil Price by $1.00 per bbl	$ 53	$ 0.01
Increase in Natural Gas Price by $0.10 per mcf	$ 77	$ 0.01
Increase in Value of Canadian Dollar compared to U.S. $ by $0.01	$ (8)	$ (0.00)

* Weighted Average Basic Shares

We placed our shares at increasing levels from $0.70 to $0.76, $0.80 and $1.10 per share from April to December, 1995.





MANAGEMENT'S REPORT

The annual report and financial statements have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the annual report, including the financial statements.

Rick Hatala
President

Philip R. Schreiner
Secretary, Treasurer

AUDITOR'S REPORT

To the Shareholders of Lionheart Energy Corp.

I have audited the balance sheets of Lionheart Energy Corp. as at December 31, 1995 and 1994 and the statements of operations and retained earnings and changes in financial position for the years ended December 31, 1995 and 1994. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in financial position for the years ended December 31, 1995 and 1994 in accordance with generally accepted accounting principles.

M. H. Shaikh Prof. Corporation

Chartered Accountant
Calgary, Alberta
April 3, 1996

BALANCE SHEETS

As at December 31, 1995 and 1994

ASSETS

	1995	1994
Current		
Cash	$ 602,397	$ –
Accounts receivable	1,083,318	422,809
Prepaid expenses	39,737	28,076
	1,725,452	450,885
Capital assets (Note 3)	7,485,152	2,609,693
	$ 9,210,604	$ 3,060,578

LIABILITIES AND SHAREHOLDERS' EQUITY

	1995	1994
Current		
Cheques written in excess of cash balance	$ –	$ 29,591
Accounts payable and accrued liabilities	2,356,764	545,289
Bank indebtedness (Note 4)	–	600,000
	2,356,764	1,174,880
Loan payable (Note 5)	1,405,000	–
Provision for site restoration	106,535	43,028
	3,868,299	1,217,908
Shareholders' equity		
Share capital (Note 6)	5,248,191	1,725,562
Retained earnings	94,114	117,108
	5,342,305	1,842,670
	$ 9,210,604	$ 3,060,578

Approved on behalf of the Board:

Director

Director

See Accompanying Notes

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the Years Ended December 31, 1995 and 1994

	1995	1994
Revenue		
Petroleum and natural gas sales	$ 2,210,759	$ 1,025,043
Royalties	(310,164)	(155,587)
Alberta royalty tax credit	19,286	17,716
Other	33,690	4,031
	1,953,571	891,203
Expenses		
Production and operating	720,494	364,923
Depletion and amortization	546,567	221,656
General and administrative	619,267	153,070
Interest	61,453	27,400
	1,947,781	767,049
Net income from operations	5,790	124,154
Loss on sale of capital assets	(4,400)	–
Net income before income taxes	1,390	124,154
Provision for income taxes	(173,030)	(115,844)
Utilization of income tax loss carry forward	173,030	115,844
Net income	1,390	124,154
Retained earnings (deficit), beginning of year	117,108	(7,046)
Dividends	(24,384)	–
Retained earnings, end of year	$ 94,114	$ 117,108
Basic earnings per share	$ –	$ 0.02

See Accompanying Notes

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 1995 and 1994

	1995	1994
Operating activities		
Net income for the year	$ 1,390	$ 124,154
Add non-cash items		
Depletion and amortization	546,567	221,656
Loss on sale of capital assets	4,400	–
	552,357	345,810
Net change in non-cash operating working capital	1,139,305	91,352
	1,691,662	437,162
Financing activities		
Bank indebtedness	805,000	600,000
Issuance of share capital	4,476,386	1,436,042
Share issuance costs	(417,303)	(63,931)
Amalgamation costs	–	(88,977)
	4,864,083	1,883,134
Investing activities		
Purchase of capital assets	(6,030,373)	(2,433,200)
Sale of capital assets	131,000	–
	(5,899,373)	(2,433,200)
Dividends	(24,384)	–
Increase (decrease) in cash	631,988	(112,904)
Cash (deficiency), beginning of year	(29,591)	83,313
Cash (deficiency), end of year	$ 602,397	$ (29,591)
Cash flow from operations per share	$ 0.06	$ 0.05

See Accompanying Notes

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 1995 and 1994

1. INCORPORATION AND AMALGAMATION OF OPERATIONS

The Company was incorporated under the laws of the Province of Alberta on June 2, 1993 and commenced operations on that date. The Company's primary activity is exploration, development and production of petroleum and natural gas in Canada.

At the Annual and Special Meeting held on November 1, 1994, the shareholders of Early Resources Ltd. ("Early") and Lionheart Energy Corp. approved an amalgamation of the two companies effective November 3, 1994 with operations to be carried out under the name of Lionheart Energy Corp. ("The Company").

Prior to the amalgamation, Early was a junior capital pool listed on the Alberta Stock Exchange and the amalgamation with Lionheart Energy Corp. constitutes its major transaction within the meaning of Alberta Securities Commission Policy No. 4.11 and Circular No. 7 of the Alberta Stock Exchange.

Under the terms of the amalgamation, the 3,300,000 common shares of Early were exchanged for 330,000 common shares of the amalgamated Lionheart Energy Corp. As well, the 3,881,956 common shares of preamalgamation Lionheart Energy Corp. were exchanged for 7,763,912 common shares of the Company.

The amalgamation represents a reverse takeover and is accounted for using the purchase method. The net assets acquired are summarized as follows:

Cash	$ 166,550
Deferred amalgamation costs	32,744
Accounts payable	(25,877)
	$ 173,417

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The more significant of these accounting policies are the following:

a) Petroleum and natural gas properties and equipment

The Company follows the full cost method of accounting in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for and development of oil and natural gas reserves are capitalized into a single Canadian cost centre and charged against earnings as set out below. Such costs include land acquisition, geological and geophysical, carrying charges of non-producing properties and costs of drilling both productive and non-productive wells and related overhead charges.

Gains or losses are not recognized upon disposition of oil and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion is provided on costs accumulated in producing cost centres using the unit of production method.
For purposes of the depletion calculation, gross proved oil and natural gas reserves, as determined by outside consultants, are converted to a common unit of measure on the basis of their approximate energy content.

The Company periodically reviews the costs associated with unproved properties and preproduction stage cost centres to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made.

The net carrying costs of the Company's oil and natural gas properties in producing cost centres is limited to an estimated recoverable amount. This amount is the aggregate of future net revenues from proved reserves and the costs of undeveloped properties, net of impairment allowances, less future general and administrative costs, financing costs, future site restoration costs and income taxes. Future net revenues have been calculated using prices in effect at the Company's year end without escalation or discounting.

b) Joint venture accounting

Substantially all of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others and, accordingly, the accounts reflect only the Company's proportionate interest in such activities.

c) Capital assets

Capital assets are recorded at cost. Amortization is provided at the following rates and methods:

Automotive	20% declining balance
Furniture and fixtures	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	20% straight-line
Buildings	4% declining balance

One half of the above rates are applied to current year additions.

d) Future removal and site restoration costs

Estimated future removal and site restoration costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated by management in consultation with engineers based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and amortization expense and actual future removal and site restoration expenditures are charged to the accumulated provision account as incurred.

e) Flow-through shares

The deductions for income tax purposes of resource expenditures related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Petroleum and natural gas properties and equipment and share capital are reduced by the estimated income taxes related to the renounced income tax deductions when the expenditures are incurred.

f) Income taxes

The Company follows the tax allocation method of accounting for corporate income taxes. Deferred taxes are provided to the extent that current taxes have been reduced by claiming amounts, primarily exploration and development costs and capital cost allowance, in excess of the related depletion and amortization recorded in the financial statements.

g) Per share data

Per share amounts are calculated based on the weighted average number of common shares outstanding during the year (1995 - 9,486,229; 1994 - 6,866,690). Comparative figures have been restated to reflect the share capital as disclosed in Note 6. Fully diluted per share data has not been presented since the assumed conversion of preferred shares, exercise of options and exchange of flow-through exchange rights, as disclosed in Note 6(a), (d) and (e) would not be materially different from basic per share data.

3. CAPITAL ASSETS

	1995		
	Cost	Accumulated Depletion and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 7,762,160	$ 641,000	$ 7,121,160
Land	204,322	–	204,322
Furniture and fixtures	20,868	3,637	17,231
Computer equipment	64,631	21,108	43,523
Leasehold improvements	1,527	611	916
Buildings	100,000	2,000	98,000
	$ 8,153,508	$ 668,356	$ 7,485,152

	1994		
	Cost	Accumulated Depletion and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 2,754,344	$ 180,210	$ 2,574,134
Automotive	6,000	600	5,400
Furniture and fixtures	5,538	554	4,984
Computer equipment	28,180	4,227	23,953
Leasehold improvements	1,527	305	1,222
	$ 2,795,589	$ 185,896	$ 2,609,693

The Company has excluded $ 306,178 (1994 - $306,178) worth of petroleum and natural gas properties from depletion since the amounts relate to acquisition and evaluation of unproven properties. The properties are at various stages of exploration and will be subject to depletion as exploration on the related properties are completed.

4. BANK INDEBTEDNESS

Bank indebtedness, representing a revolving loan to a maximum of $1,000,000, is due on demand, bears interest at the Alberta Treasury Branches prime plus 1.25% and is secured by a general security agreement, specific assignment of all contracts of the Company and a fixed and floating charge debenture in the amount of $1,000,000 covering all assets of the Company.

5. LOAN PAYABLE

Loan payable to the Alberta Treasury Branches represents a revolving loan to a maximum of $2,600,000, is due on demand and bears interest at the Alberta Treasury Branches prime plus 1%. The loan is secured by a general security agreement, specific assignment of all contracts and a fixed and floating charge debenture in the amount of $5,000,000 over all assets of the Company. Since the Alberta Treasury Branches indicated the loan will not be demanded within the next twelve months, the entire balance has been classified as non-current. Subsequent to year end the revolving loan maximum has been increased to $3,600,000.

6. SHARE CAPITAL

a) Authorized

1994 pre-amalgamation

Unlimited number of common shares

Unlimited number of Class "A" shares, issuable in series, number of shares per series, designation, rights, privileges and conditions to be determined by directors prior to issuance

Post amalgamation

Unlimited number of common shares

Unlimited number of preferred shares, issuable in series

The Company is authorized to issue 60,000 preferred shares Series A and 100,000 preferred shares Series B which bears an annual dividend at 7.5% payable quarterly. Each Series A and Series B preferred shares is entitled to 25 votes and is convertible into 25 common shares for no additional consideration. The shares are redeemable by the Company after September 30, 1996. The Series A shares are retractable by the holder while the Series B shares are non-retractable by the holder. The Company has reserved 1,841,250 common shares for the possible conversion of Series A and Series B preferred shares.

b) Issued and outstanding common shares

	Number of Shares	Amount
Balance forward December 31, 1993	4,356,912	$ 488,500
For cash:		
Directors, officers and management	730,000	160,750
Private placement	2,614,000	847,450
For purchase of petroleum and natural gas properties	58,000	10,150
For payment of services received	5,000	875
Issue of share purchase warrants	-	4,400
Share issuance costs	-	(49,313)
Balance, before November 3, 1994 amalgamation	7,763,912	1,462,812
Share exchange on amalgamation with Early Resources Ltd.	330,000	173,417
Shares issued for cash to directors of Early Resources Ltd.	18,000	18,000
Shares issued for cash	85,000	110,500
Flow-through shares issued for cash	85,000	110,500
Tax effect of flow-through	-	(46,072)
Share issuance costs	-	(14,618)
Amalgamation costs	-	(88,977)
Balance, December 31, 1994	8,281,912	1,725,562
For cash pursuant to share purchase options to directors, officers and management	683,000	150,036
Issue and exercise special share purchase warrants	1,939,600	1,388,380
Flow-through shares issued for cash		
Directors and officers	241,450	199,970
Private placement	1,031,250	825,000
Issue of flow-through exchange rights	-	440,000
Tax effect of flow-through	-	(536,454)
Share issuance costs	-	(289,895)
Balance, December 31, 1995	12,177,212	$ 3,902,599

The issued and outstanding common shares prior to amalgamation have been adjusted to reflect the two for one common share exchange upon amalgamation.

During 1994, the Company issued 85,000 flow-through common shares at a price of $1.30 per common share for total consideration of $110,500 pursuant to a flow-through private placement. The Company renounced qualifying expenditures totalling $104,000 during 1994. The remaining $6,500 was renounced during 1995.

During fiscal 1995, the Company issued 1,250,000 flow-through common shares at a price of $0.80 per common share and 22,700 flow-through common shares at a price of $1.10 per common share for total consideration of $1,024,970 pursuant to a flow-through private placement. The Company renounced qualifying expenditures totalling $1,204,458 during 1995 relating to the above mentioned flow-through common shares and the flow-through exchange rights disclosed in Note 6(e).

c) Issued and outstanding preferred shares

	Number of Shares	Amount
Series A for cash on private placement	55,000	$ 1,100,000
Series B for cash on private placement	18,650	373,000
Share issuance costs	–	(127,408)
Balance, December 31, 1995	73,650	$ 1,345,592

d) Share purchase options

The Company has granted directors, officers, employees and consultants stock options of which the following are outstanding on December 31, 1995:

Number of Options	Exercise Price Per Option	Expiry Date
4,000	$0.80	March 31, 1996
68,600	$0.80	January 15, 2000
100,000	$0.56	July 1, 2000
420,000	$0.56	September 1, 2000
261,666	$0.56	November 29, 2000

Pursuant to an Agency Agreement, the Company granted Yorkton Securities Inc. the option to purchase 10,000 common shares at a price of $1.00 per common share expiring January 20, 1995. These options expired without being exercised.

Pursuant to Stock Option Agreements, as amended by the Board of Directors, the Company granted to certain directors and officers the option to purchase 32,000 common shares at a price of $0.50 per common share expiring August 31, 1995. None of these options were exercised.

e) Flow-through exchange rights

On December 29, 1995, the Company issued 400,000 flow-through rights at a price of $1.10 per flow-through right for total consideration of $440,000. Each flow-through right entitles the holder to exchange one flow-through right for one flow-through common share without any additional consideration. As at April 3, 1996, none of the rights have been exchanged.

f) Share purchase warrants

During 1994, the Company issued 440,000 share purchase warrants at a price of $0.01 per warrant for total consideration of $4,400. Each share purchase warrant entitled the holder to acquire one common share. Directors and officers of the Company were entitled to exercise 240,000 warrants at a price of $0.175 per common share. Consultants of the Company were entitled to exercise 200,000 warrants at a price of $0.34 per common share. In August 1994, all warrants were exercised for total consideration of $110,000.

g) Special share purchase warrants

On April 20, 1995, the Company issued 1,428,600 special share purchase warrants at a price of $0.70 per warrant for a total consideration of $1,000,020. Each special share purchase warrant entitled the holder to exchange one warrant of the Company for one common share without further consideration. A final receipt for filing a prospectus was received on August 24, 1995. On August 25, 1995, the special share purchase warrants were exchanged for 1,428,600 common shares of the Company.

On May 12, 1995, the Company issued 511,000 special share purchase warrants at a price of $0.76 per warrant for a total consideration of $388,360. Each special share purchase warrant entitled the holder to exchange one warrant of the Company for one common share without further consideration. A final receipt for filing a prospectus was received on August 24, 1995. On September 7, 1995 the special share purchase warrants were exchanged for 511,000 common shares of the Company.

7. INCOME TAXES

a) The incurring of income taxes in the Statement of Operations varies from the amount that would be computed by applying the expected income tax rate of 44.3% to net income. The principal reasons for the difference between such "expected" income tax expense and the amount actually recorded are as follows:

	1995	1994
Computed "expected" income tax expense	$ 616	$ 55,000
Increase (decrease) in income taxes resulting from:		
Crown royalties, net of Alberta royalty tax credit	50,628	9,345
Resource allowance and earned depletion	(68,709)	(46,682)
Non-deductible charges	190,495	98,181
Utilization of loss carryforward	(173,030)	(115,844)
	$ –	$ –

b) Pursuant to its acquisition of Arbol Energy Ltd. in 1993, the Company acquired losses for income tax purposes which, in management's view, may be used to reduce future year's income for tax purposes. The value of these loss carry forwards have not been reflected in these financial statements.

These losses expire as follows:

1998	$ 382,991
1999	$ 7,549

8. RELATED PARTY TRANSACTIONS

The Company paid consulting fees and salaries to officers and directors or companies which they control in the amount of $191,500 (1994 - $78,500) none of which (1994 - $12,000) is included in accounts payable at December 31. The consulting fees and salaries have been allocated as follows:

	1995	1994
Share issuance costs	$ 31,500	$ 40,200
Amalgamation costs	–	20,400
General and administrative expenses	$ 160,000	$ 17,900

During 1994, the Company acquired petroleum and natural gas properties from a director of the Company for $5,000 cash and 46,000 common shares at a price of $0.175 per common share for total consideration of $13,050.

9. SUBSEQUENT EVENT

Subsequent to year end, the Company has entered into an Agency Agreement to issue 1,450,000 special warrants at a price of $1.00 per special warrant and 750,000 flow-through special warrants at a price of $1.10 per flow-through special warrant for total consideration of $2,275,000. Each special warrant and flow-through special warrant, if and when issued, will entitle the holder to exchange one warrant of the Company for one common share without further consideration. The common shares of the Company will be issued in exchange of the warrants once the Company has obtained a receipt for a final prospectus from the relevant regulatory authorities. As at April 3, 1996, none of the warrants have been issued.

10. COMPARATIVE AMOUNTS

Comparative amounts have been reclassified to reflect current year's presentation.

THE CORPORATION

MISSION STATEMENT

Lionheart Energy Corp. is a public, junior oil and gas company engaged in the acquisition, production, exploitation and development of conventional petroleum and natural gas reserves in Western Canada. We are committed to providing enhanced value to our shareholders, stakeholders and staff through our principal business focus within the oil and gas industry.

VALUES

- *Lionheart believes that every employee should own a portion of the company.*
- *We are committed to linking compensation with productivity and performance of the organization.*
- *We will ensure that working conditions are enjoyable, pleasant and safe.*
- *We want to treat everyone fairly and with honesty and integrity.*
- *We will strive to honor our commitments.*
- *We will accept our mistakes and learn from them.*
- *We encourage and support a balanced lifestyle: physically, mentally and spiritually.*

PRINCIPLES

We believe that...

- *Corporate Excellence depends upon the development of a vital "spirit" in the organization.*
- *The "spirit" or culture of the corporation reflects the vision, values and philosophy of its senior management.*
- *A positive corporate image, held by both the public and the employees, is an essential basis for corporate excellence.*
- *The value system of an organization must be ethically sound, understood and accepted by all members of the organization.*
- *There is an essential equality, dignity and worth of an individual, but we recognize differences in ability, capacity and competence.*
- *The success of a corporation is a responsibility shared by all employees.*
- *Profits of the company should be earned honorably.*
- *A just and equitable balance must be maintained between the rights and well-being of the employees and the rights and well-being of the organization.*
- *A co-operative approach to relations based on trust and open communication is essential.*
- *A participatory and enabling management style that inspires commitment, rather than inflicts it, is the best for the corporation to help achieve excellence.*
- *Technology is our servant and not our master.*
- *We believe in the stewardship or responsible management of the environment, material and technical resources of the world.*

CORPORATION INFORMATION

STOCK INFORMATION

As at December 31, 1995, Lionheart had 12,177,212 outstanding common shares (9,486,229 weighted average) which are listed on The Toronto Stock Exchange and the Alberta Stock Exchange under the trading symbol "LEO".

ANNUAL MEETING

The Annual General and Special Meeting of Shareholders of the corporation will be held on May 23, 1996, at 2:00 p.m. in the Lakeview Room of the Westin Hotel, 320-4th Avenue S.W., Calgary, Alberta. All shareholders are encouraged to attend.

DIRECTORS

Gary Bourgeois Toronto
President, Queen-Yonge Investments

Christian Crosby Vancouver
Sr. Vice-President, Christopher Investments

Rick Hatala Calgary
President of Lionheart

Philip Schreiner Calgary
Chief Financial Officer of Lionheart

Robert Vanderham Victoria
Chairman Highridge Resources Ltd.

OFFICERS

Rick Hatala
President and Chief Executive Officer

Philip Schreiner
Secretary, Treasurer and Chief Financial Officer

Steve Fagan
Vice-President, Land and Acquisitions

Greg Robb
Vice-President, Exploration and Development

SOLICITORS

Burnet Duckworth and Palmer

REGISTRAR AND TRANSFER AGENT

Montreal Trust, Calgary and Toronto

CORPORATE OFFICES

475, 550-Sixth Avenue S.W.
Calgary, Alberta T2P 0S2

Telephone: (403) 266-LION (5466)
Facsimile: (403) 266-5617

BANK

Alberta Treasury Branches

ENGINEERING CONSULTANTS

Brusset Consultants Ltd.

AUDITOR

M.H.Shaikh Professional Corporation
Chartered Accountant

Produced by Canada Corporate Communications Inc.

Lionheart ENERGY CORP.

ABBREVIATIONS

bbl	barrel	MBOE	thousands of barrels of oil equivalent
bbl/d	barrels per day	mcf	thousands of cubic feet
bcf	billions of cubic feet	mcf/d	thousands of cubic feet per day
BOE	barrels of oil equivalent (10 mcf = 1 bbl)	mmcf	millions of cubic feet
BOEPD	barrels of oil equivalent per day	mmcf/d	millions of cubic feet per day
BOPD	barrels of oil per day	WTI	West Texas Intermediate
mbbl	thousands of barrels		

Lionheart
ENERGY CORP

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